

Idaho Legislative Audits
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Idaho Department of Environmental Quality
Clean Water State Revolving Fund

Opinion Audit Report

Issued: April 5, 2005
Fiscal Year: 2004



EXECUTIVE SUMMARY LEGISLATIVE AUDITS

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND

PURPOSE AND SCOPE. We have audited the financial statements of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund for the fiscal year ended June 30, 2004, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if the Fund's financial statements are materially accurate and reliable, and that the Fund complied with laws and regulations affecting fiscal operations.

CONCLUSION. We conclude that the Fund's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the Fund's financial statements.

FINDINGS AND RECOMMENDATIONS. There are three findings and recommendations in this report as explained below.

FINDING #1. The Department has not invested available cash in the State Treasurer's long-term investment pool to increase earnings. Closer monitoring of cash needs and investing in longer term investments would improve investment earnings. The Fund has more than \$69 million in cash. Much of this cash is not needed immediately and could be invested in longer term investments to earn higher yields. An interest rate increase of just 1% would yield about \$600,000 in one year; a 3% increase would yield about \$1.8 million in one year.

We recommend that the Department complete a cash flow analysis and, based on the results, consider making long-term investments. The Department should also complete cash flow analyses periodically and consider laddering the investment maturity dates to maximize earnings.

FINDING #2. The Department's system used for the Fund's accounting is cumbersome and contributes to accounting errors. The accounting system is more than 15 years old and requires multiple transactions and data entries. It also requires peripheral systems to complete necessary accounting, increasing the opportunity for errors. Only one fiscal employee has the knowledge to operate and access the system, which increases the risk that funds could be misappropriated and that errors may go undetected.

Additionally, the Department does not complete financial statements in a timely manner, does not reconcile certain transactions recorded in the State's accounting system (STARS) to transactions recorded in the Fund's accounting system, and uses three fund details and many program codes to account for fund activities in the State's accounting system when one fund detail and fewer program activity codes would suffice.

We recommend that the Department upgrade and improve the accounting system and procedures. This should include the following:

1. Consider purchasing a new integrated accounting system. It is likely that the Department can purchase an "off the shelf" software program that is not very expensive and satisfies its needs.
2. Ensure that more than one person is trained to complete the Fund's accounting.
3. Generate accounting reports in a timely manner and that management review them to monitor financial activities.
4. Complete all accounting and reconciliation of transactions in one fund detail and reduce the number of program codes.

FINDING #3. Documentation in the loan files was not always adequate to support loan transactions or decisions. The Department could not provide adequate documentation for some transactions. This lack of documentation places the Department at risk of a local entity contending that it did not agree to the new conditions. Good documentation will also protect employees from potential allegations of wrongdoing. The following are examples of missing documentation and areas needing improvement:

1. The Department could not provide adequate documentation explaining why interest was not accrued for certain periods on several loans. As a result, more than \$150,000 in interest was not charged and may not be collected.
2. The Department could provide no addendums to the loan agreements or correspondence in the loan files to indicate that all parties agreed to the re-amortization of certain loans.
3. There was no documentation explaining the reasons for encouraging several local entities to refinance their loans by issuing local bonds.
4. There was no documentation explaining why loan amounts recorded in the accounting system (the loan detail report) and amounts placed in the loan closing documents did not always agree to the beginning loan amortization amounts.

We recommend that the Department document all loan decisions that affect the loans or transactions related to them. The loan files should include the following:

1. Justification and management approval for not accruing interest on loans.
2. Justification and support, including management approval and the local entity's concurrence, for loan re-amortizations.
3. Explanations and loan analyses, including cash flow projections, investment earnings impact, and other options, prior to encouraging local entities to refinance their loans.
4. Documentation explaining variances in loan amounts reported on loan detail reports and loan amortization schedules.

PRIOR FINDINGS AND RECOMMENDATIONS. There were no findings and recommendations in the prior report.

AGENCY RESPONSE. The Department has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The Fund is financed by grants from the EPA and State matching funds. The Fund is used to provide loans to municipalities at reduced rates to finance construction of publicly owned wastewater pollution control facilities. The financial activity of the Fund for fiscal year ended June 30, 2004 is summarized as follows:

Clean Water State Revolving Fund
Statement of Net Assets at June 30, 2004

ASSETS:	
<u>Current Assets</u>	
Cash	\$66,060,436
Loans Receivable	3,423,162
Interest Receivable - Loans	1,295,040
Interest Receivable - Fund Balance	<u>135,571</u>
Total Current Assets	<u>\$70,914,209</u>
<u>Non-Current Assets</u>	
Loans Receivable	<u>\$77,301,567</u>
Total Non-Current Assets	<u>\$77,301,567</u>
TOTAL ASSETS	<u>\$148,215,776</u>
LIABILITIES:	
<u>Current Liabilities</u>	
Miscellaneous Payables	<u>\$13,218</u>
TOTAL LIABILITIES	<u>\$13,218</u>
NET ASSETS:	
Unrestricted	<u>\$148,202,558</u>
TOTAL NET ASSETS	<u>\$148,202,558</u>

Clean Water State Revolving Fund
Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2004

<u>Operating Revenues</u>	
Interest Earned - Loans	\$2,837,645
Interest Earned - Fund Balance	<u>1,403,770</u>
Total Operating Revenues	<u>\$4,241,415</u>
<u>Operating Expenses</u>	
Personnel Costs	\$149,149
Indirect Expenses	55,245
Other Expenses	<u>25,270</u>
Total Operating Expenses	<u>\$229,664</u>
Operating Income	\$4,011,751
<u>Non-Operating Revenues</u>	
Contributions from EPA	6,669,361
Contributions from State	<u>1,382,808</u>
Total Non-Operating Revenue	<u>\$8,052,169</u>
Changes in Net Assets	\$12,063,920
Net Assets - Beginning of Year as Restated	<u>136,138,638</u>
Net Assets - End of Year	<u><u>\$148,202,558</u></u>

OTHER ISSUES. We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the director, Toni Hardesty, and her staff for their assistance and cooperation given to us during this audit.

QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report SA24704

<p>For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.</p>
